

Message Text

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ACTION EUR-25

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. AUGUST BALANCE OF PAYMENTS REGISTERED
SMALL DEFICIT FOR EIGHT-MONTH PERIOD TO \$6,361
MILLION. DURING FIRST HALF OF SEPTEMBER, BOI INTERVENTION
IN EXCHANGE MARKETS TOTALED ABOUT \$200 MILLION. WEIGHTED
AVERAGE LIRA EXCHANGE RATE STRENGTHENED SLIGHTLY DURING
MONTH. ON SEPTEMBER 10, EC CENTRAL BANKERS APPROVED
EXTENSION OF \$1.9 BILLION SHORT-TERM CREDIT DUE SEPTEMBER
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18 FOR ANOTHER THREE MONTHS. BOI ALSO EXPECTS TO RECEIVE

PROCEEDS OF IMF OIL FACILITY AND SECOND TRANCHE STANDBY IN NEXT
FEW DAYS. END SUMMARY

2. ON SEPTEMBER 18 HEAD OF BANK OF ITALY EXCHANGE
OPERATIONS ERCOLANI CHARACTERIZED BALANCE OF PAYMENTS
PERFORMANCE FOR AUGUST AS FAIRLY ENCOURAGING. ERCOLANI
INDICATED THAT DURING FIRST HALF OF SEPTEMBER BOI
INTERVENTION IN EXCHANGE MARKETS TOTALED ABOUT \$200
MILLION. IF THIS RATE OF LOSSES CONTINUES UNTIL
END-YEAR GLOBAL DEFICIT FOR 1974 WOULD BE ABOUT \$8
BILLION.

3. MONETARY MOVEMENTS DATA FOR AUGUST SHOW SMALL
DEFICIT OF \$12.5 MILLION. MAJOR OFFICIAL TRANSACTIONS
IN AUGUST INCLUDED DRAWING OF IMF SUPER GOLD TRANCHE
(\$322 MILLION), DRAWING OF FIRST TRANCHE OF IMF STANDBY
CREDIT (\$300 MILLION), AND COMPLETE REPAYMENT OF
OUTSTANDING BELGIAN CENTRAL BANK SWAP (\$77 MILLION).
OFFICIAL BOI CONVERTIBLE CURRENCY HOLDINGS ALONE INCREASED
BY \$262 MILLION IN AUGUST. RELATIVELY SMALL DEFICIT IN
AUGUST IS IMPROVEMENT OVER VERY LARGE DEFICITS EARLIER
THIS YEAR BUT LESS FAVORABLE THAN RATHER PUZZLING JULY
SURPLUS OF \$308 MILLION. MAIN FACTORS BEHIND AUGUST
PERFORMANCE SEEM TO BE SEASONALLY HIGH TOURIST RECEIPTS,
COMMERCIAL CREDITS AND POSSIBLY REDUCED TRADE DEFICIT.

4. RECORDED CUMULATIVE DEFICIT FOR EIGHT MONTH PERIOD
FROM JANUARY THROUGH AUGUST WAS \$4,211 MILLION AND ADJUSTED
CUMULATIVE DEFICIT (INCLUDING EUROMARKET
BORROWINGS OF \$2,150 MILLION) WAS \$6,361 MILLION.
DEFICIT HAS BEEN FINANCED BY DECLINE IN BOI FOREIGN
EXCHANGE ASSETS BY \$566 MILLION, DECREASE IN NET IMF
POSITION BY \$355 MILLION AS RESULT OF DRAWING DOWN OF
SUPER GOLD TRANCHE, REDUCTION IN NET SHORT-TERM
LIABILITIES BY \$341 MILLION MAINLY AS RESULT OF REPAYMENTS
OF SWAPS WITH BELGIAN CENTRAL BANK, INCREASE IN MEDIUM
AND LONG-TERM LIABILITIES OF \$2,382 MILLION (INCLUDING
EC CREDIT, MONTEDISON COMPENSATORY LOAN AND IMF STANDBY
LIABILITY), EUROMARKET BORROWINGS OF \$2,150, NET SHORT-
TERM BORROWINGS OF COMMERCIAL BANKS OF \$1,243 MILLION,
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AND REDUCTION OF \$6 MILLION IN SDR HOLDINGS.

5. ERCOLANI INFORMED TREASATT THAT SECOND STANDBY
DRAWING (SDR 450 MILLION OR ABOUT \$530 MILLION) WILL
OCCUR WEEK OF SEPTEMBER 21 AND THAT RECEIPT OF \$310-311
MILLION FROM IMF OIL FACILITY EXPECTED ON SEPTEMBER 21.

6. ON SEPTEMBER 19 LIRA EXCHANGE RATE WAS 661.10 LIRE

PER DOLLAR, THREE-MONTH FORWARD RATE WAS 676.10 AND
WEIGHTED AVERAGE DEVALUATION OF LIRE, ACCORDING TO BOI
INDEX, WAS 18.53 PERCENT. ON SAME DATE THREE-MONTH
EURO-LIRA INTEREST RATE WAS 20-3/4 PERCENT AND LIRA INTERBANK
INTEREST RATES WERE 16-7/16 (48-HOUR RATE) AND 17-1/16
(THREE-MONTH RATE). VOLPE

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